Intrepid Capital Funds
the constant pursuit of value

INTREPID DISCIPLINED VALUE FUND

2ND QUARTER 2016 COMMENTARY

2Q 2016

JUNE 30, 2016

PERFORMANCE

		Total Return			Average Annualized Total Returns as of June 30, 2016		
	Inception Date	Qtr.	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid Disciplined Value Fund - Inv.	10/31/07	3.78%	7.97%	2.61%	6.73%	6.86%	5.73%
S&P 500 Index		2.46%	3.84%	3.99%	11.66%	12.10%	5.85%
Russell 3000 Index		2.63%	3.62%	2.14%	11.13%	11.60%	5.90%

Performance data quoted represents past performance and does not guarantee future results. *Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-996-FUND. The Fund imposes a 2% redemption fee on shares held for 30 days or less. Performance data does not reflect the redemption fee. If it had, returns would be reduced.*

Per the Prospectus, the Fund's annual operating expense (gross) for the Investor Shares is 1.31%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 1.30% through 1/31/17. Otherwise, performance shown would have been lower.

July 1, 2016

Dear Fellow Shareholders,

The UK has voted to "Brexit" the European Union, and while this development has rightfully dominated the attention of the financial news industry, we think there are issues of far greater consequence for domestic investors. The primary issue is the decline in first quarter earnings among S&P 500 companies, which reported from April through June. That makes four quarters in a row that earnings have declined, and expectations are that the next quarter will also be a decline, a streak that would tie the Great Recession of 2007 to 2009. Part of the reason for declining earnings is contracting profit margins, which peaked in December 2014 slightly above 10% and have slowly contracted to 9.6% currently.[1]

Generally speaking, when earnings decline, investors head for the exits. However, in today's world of extremely low rates, there is no safety to be found. At least, we believe, there is no safety to be found that will pay an investor much of a return. That explains why the S&P 500 has actually moved up despite the earnings drop. The S&P 500 is up 3.84% for the last six months. The reason is that investors expect earnings to show growth in the back half of 2016. In fact, analysts expect second half earnings to grow 4.2% for S&P 500 companies.[2] Hope springs eternal. In college football rivalries, fans of the losing team will usually say, "Wait till next year!" For Street analysts, the mantra is slightly changed to "Wait till the back half of the year!" The basis for this optimism appears to rest on easier comparable periods, since the results for the September and December ending quarters have easier prior year periods against which to compare themselves. We are less optimistic. We think that analysts tend to overestimate earnings growth at this time of year. In each of the last five years (2011-2015), analysts have overestimated actual second half earnings growth by 4.7% on average, which is higher than the growth they expect to see in the back half of the year.[3] Our view is colored by what we see and hear from the management of companies we follow, and they characterize the current environment as challenging, especially for growing revenue. We also see many businesses trading at multiples that we deem historically expensive. Thus, we are cautiously positioned and hope to take advantage of ongoing market volatility and any potential pricing dislocations that might occur.

[1] Jones, Chuck. "June Quarter to Tie the Great Recession's Earnings Decline." Web Blog. *Forbes.com*. 20 June 2016.

[2] Kingsbury, Kevin. "How Much Longer Will S&P 500 Profit Contract?" Web Blog: *WSJ.com/Moneybeat*. 28 June 2016.

[3] Butter, John. "Earnings Growth - Can S&P 500 Break Streak Of EPS Declines?" *Factset.com*. 28 June 2016.

For the quarter, the Intrepid Disciplined Value Fund ("the Fund") returned 3.78% compared to the S&P 500 Index return of 2.46% and the Russell 3000 Index's 2.63%. For the first six months of the year, the Fund returned 7.97% compared to 3.84% for the S&P 500 Index and 3.62% for the Russell 3000 Index. The outperformance in both periods can be primarily attributed to our precious metals holdings. For the second quarter, our top two performers were Alamos Gold (ticker: AGI) and Silver Wheaton (ticker: SLW). Corus Entertainment (ticker: CJR/B CN) just nudged out Symantec (ticker: SYMC) to take the third spot among the Fund's top contributors. In the case of Corus, we believe that the market favorably viewed its acquisition of Shaw Media and the ability of the combined firm to grow its advertising revenues. We also want to mention Symantec, which we sold near the end of the quarter. We held this stock for less than a year. However, most of our gain in this investment came from dividends, since the company paid out a $4 special dividend back in March to distribute proceeds from the sale of its Veritas unit. During the second quarter, Symantec announced that it was buying Blue Coat Systems for a whopping $4.65 billion, which was more than 24 times Blue Coat's EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). The market liked the deal, in which Symantec gets a firm in the hot-growing Policy Enforcement part of cloud and web security as well as a CEO in Greg Clark. As the stock traded beyond our intrinsic value, we exited the position.

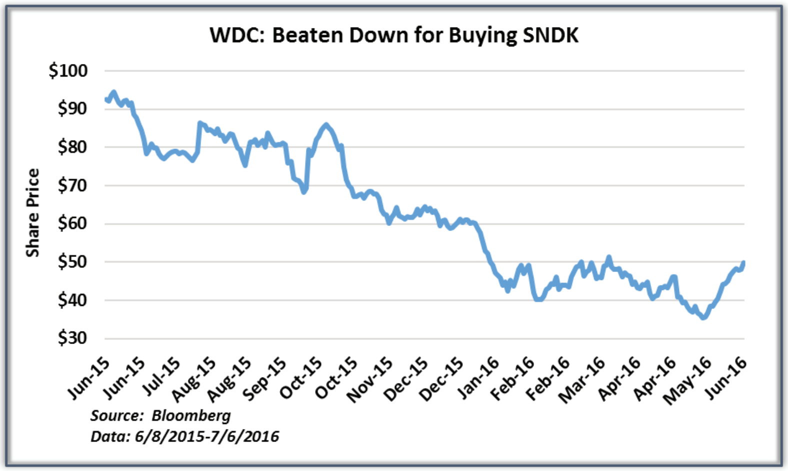
Top Ten Holdings	(% OF NET ASSETS)
Corus Entertainment, Inc. - Class B	3.8%
Verizon Communications, Inc.	3.3%
Western Digital Corp.	3.2%
Oaktree Capital Group LLC	3.2%
Teradata Corp.	3.1%
Silver Wheaton Corp.	3.0%
Northern Trust Corp.	2.9%
Mattel, Inc.	2.8%
Coach, Inc.	2.6%
Alamos Gold, Inc. - Class A	2.4%

Top ten holdings are as of June 30, 2016. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

On the opposite side of the ledger, our bottom contributors included two that were impacted by the Brexit vote, though in different ways. First, Oaktree Capital (ticker: OAK) was impacted, although not necessarily because of particular investments in the UK. Rather, the financial industry as a whole declined after the vote result. We do not believe that Oaktree is hurt by Brexit, and in fact, believe it is more likely to benefit from potential mispricing that may occur. Quarto Group (ticker: QRT LN) declined because it is a UK-based company. However, more than half of its revenue comes from the U.S. Rounding out the bottom three is Apple (ticker: AAPL), which started to decline earlier in the year as results in China were disappointing. We expect a new product to become available in the fall, but at this time we are maintaining what we feel is a cautious position in this stock until we can get a bit more clarity on the product and the potential for domestic customers to upgrade. Recall that two years ago, Apple was able to set record sales on the strength of its iPhone 6 and 6 Plus as many U.S. iPhone users upgraded to the newer model. However, last year the iPhone 6S and 6S Plus were less successful. One thing to keep in mind is that wireless service providers (such as Verizon and AT&T) have switched to installment type plans, in which users pay down the cost of their phones on a monthly basis. There is a potential for this plan to incent users to upgrade their phones on a more regular basis. In addition, back in January, Apple CEO Tim Cook noted that about 60% of those who had an iPhone prior to the launch of the iPhone 6 and 6 Plus *had still not yet upgraded their phones.* We think the bottom line is that Apple has an opportunity here, and the installment plan will increase the likelihood that users will upgrade. Stay tuned.

Although activity was muted in the quarter, we did add one position in Western Digital (ticker: WDC), a leader in disk storage solutions for computing devices and servers. Our initial position was established when the company bought SanDisk (ticker: SNDK). On October 21, 2015, Western Digital announced an offer to acquire SanDisk for $85.10 cash and 0.0176 shares of WDC for each share of SNDK. However, this offer was contingent upon an equity investment from Tsinghua Unisplendour, a business unit of the Chinese Tsinghua University. The 15% equity stake would have given WDC an additional $3.775 billion, which translated into a price of $92.50 per share of WDC. A contingent offer was also made, which would take effect if the Tsinghua financing fell through. That second offer was $67.50 in cash and 0.2387 shares of WDC for each share of SNDK. Concerns expressed over the financing from Tsinghua were legitimate, because the CFIUS (Committee on Foreign Investment in the U.S.) had to approve the Chinese investment. The CFIUS is led by the Treasury Department and includes the Defense and State departments. It conducts reviews of acquisitions of U.S. businesses by foreign investors and it recommends that the President block any transaction that it deems could compromise national security. The primary concern in this case was WDC's potential acquisition of SNDK. China currently does not have direct access to the manufacturing techniques to make cutting edge flash chips. Approval from the CFIUS would have meant a higher cash offer for SNDK owners.

From the perspective of WDC owners, things were much different. The initial buyout offer amounted to about $19 billion for SanDisk, or about 14 times trailing EBITDA. As you can see from the stock chart to the left, investors reacted rather negatively. As the stock price declined, not only did the Tsinghua agreement receive scrutiny from regulators, it also began to make less sense that an outside investor would pay $92.50 per share to take a 15% equity stake in WDC with the market price for shares near $60 by year end. Western Digital continued ahead, re-filing its request for CFIUS review on January 26th with a share price now at $45. The CFIUS never got to issue any review, since Tsinghua terminated its plan on February 23, 2016, which was also about when the entire U.S. market bottomed out.



The deal closed at the $67.50 cash/0.2387 share offer on May 13, 2016. Western Digital is now in both the Hard Disk Drive (HDD) business and the Solid State Drive (SSD) business with SanDisk. HDDs tend to be found in desktops and servers. They have spinning disks and can hold of lot of information. SSDs tend to be smaller, have no moving parts, and can access data more quickly than HDDs. While the Hard Disk Drive is a very mature market, the Solid State Disk is considered the future of data storage. Now, Western Digital has both. In addition, SanDisk has a joint venture in which it manufactures its own flash chips, which are the components needed to construct SSDs. This makes SanDisk a vertically integrated SSD manufacturer. What we like about owning WDC is that it has a lot of room to reduce costs, not only by integrating SanDisk, but also because it has received permission from China's Ministry of Commerce to integrate another subsidiary, Hitachi Global Storage Technologies (HGST). Previously, the Chinese government had mandated that WDC run Hitachi Global as an entirely independent subsidiary. Now, it can integrate it more fully, from management to manufacturing. Only the sales group must be separate. With the integration of Hitachi Global and SanDisk, Western Digital has an opportunity to drive out redundant costs. In addition, Western Digital has very strong relationships with Original Equipment Manufacturers (OEMs), which buy its Hard Disk Drives. We believe that it can leverage those relationships to sell more of SanDisk's Solid State Drives into the OEM channel. We believe that we have acquired shares of Western Digital at an attractive discount to intrinsic valuation.

The Fund ended the quarter with 49.9% in cash. We continue to be opportunistic in our approach to adding to existing positions. The average discount to intrinsic value within the Fund was 18%. This is derived by simply looking at each position within the portfolio, comparing its quarter-end price to our intrinsic valuation, and then finding the average of those 25 positions. We thank you for investing alongside us.

Sincerely,

Greg Estes, CFA
Intrepid Disciplined Value Fund Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risks including volatility due to investments in smaller and medium sized companies, which involve additional risks such as limited liquidity and greater volatility. The Fund is considered non-diversified as a result of limiting its holdings to a relatively small number of positions and may be more exposed to individual stock volatility than a diversified fund. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

Prior to April 1, 2013, the Fund was named the Intrepid All Cap Fund.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization. The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Russell 3000 Index is an index representing the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. You cannot invest directly in an index.